

## Auditing Procedures Report

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Issued under Public Act 2 of 1968, as amended.

Unit Name	Village of Elk Rapids	County	ANTRIM	Type	VILLAGE	MuniCode	
Opinion Date	July 21, 2008	Audit Submitted	July 21, 2008	Fiscal Year	February 29, 2008		

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

**Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".**

<input checked="" type="checkbox"/>	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input type="checkbox"/>	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input checked="" type="checkbox"/>	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/>	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/>	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/>	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/>	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/>	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/>	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/>	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/>	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input checked="" type="checkbox"/>	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/>	13. Is the audit opinion unqualified?
	14. If not, what type of opinion is it? <input type="text" value="NA"/>
<input checked="" type="checkbox"/>	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/>	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/>	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input checked="" type="checkbox"/>	18. Are there reported deficiencies?
<input checked="" type="checkbox"/>	19. If so, was it attached to the audit report?

General Fund Revenue:	\$ 1,012,655.00
General Fund Expenditure:	\$ 953,499.00
Major Fund Deficit Amount:	\$ 9,245.00

General Fund Balance:	(\$ 9,245.00)
Governmental Activities Long-Term Debt (see instructions):	\$ 1,169,099.00

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

CPA (First Name)	Mark	Last Name	Smith	Ten Digit License Number	1101028565		
CPA Street Address	107 S. Cass Street	City	Traverse City	State MI	Zip Code 49684	Telephone	+1 (231) 946-3230
CPA Firm Name	Rehmann Robson	Unit's Street Address	315 Bridge Street	City	Elk Rapids	Zip Code	49629

# **VILLAGE OF ELK RAPIDS, MICHIGAN**

## **FINANCIAL STATEMENTS**

**For the Fiscal Year Ended  
February 29, 2008**



**REHMANN ROBSON**

*Certified Public Accountants*

# VILLAGE OF ELK RAPIDS, MICHIGAN

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# REHMANN ROBSON

*Certified Public Accountants*

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## **INDEPENDENT AUDITORS' REPORT**

July 18, 2008

Village Council  
Village of Elk Rapids  
Elk Rapids, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely-presented component unit, each major fund, and the aggregate remaining fund information of the ***Village of Elk Rapids, Michigan*** (the "Village"), as of and for the year ended February 29, 2008, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village, as of February 29, 2008, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparisons of the General, Major Street, Local Street and Municipal Street funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 18, 2008 on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis listed on pages 3-11 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village's basic financial statements. The combining and individual fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

## **Management's Discussion and Analysis**

As the Village Manager for the Village of Elk Rapids, and head of the Village's management team, it is my pleasure to welcome you to this review of our fiscal year ending February 29, 2008. Over the past four years, we have been incorporating financial reporting changes called for in the recently adopted GASB 34 standard. While there are many technical changes, the most important thing for the reviewer of this document to know is that the goal of GASB 34 is to give a more balanced picture of the Village's assets and liabilities. As an example, while it is important to know what assets the Village has, it is also important to know how old they are, how long they will last, and if funds are being set aside to replace them. The changes contained herein should help provide the reader with that better balance.

This is also our fourth year with a management's discussion and analysis. It is the goal of this analysis to help make the information contained in these statements more approachable and meaningful for those who review it. If you have any questions, comments or suggestions that would help us in that goal, please feel free to let me know.

As management of the Village of Elk Rapids, we offer readers of the Village of Elk Rapids' financial statements this narrative overview and analysis of the financial activities of the Village for the fiscal year ended February 29, 2008. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

### **Financial Highlights**

- The assets of the Village (primary government) exceeded its liabilities at the close of the most recent fiscal year by \$11,648,813 (net assets). Of this amount, \$1,463,703 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$794,656.
- As of the close of the current fiscal year, the Village's governmental funds reported combined ending fund balances of \$348,274, an increase of \$36,247 from the prior year.
- At the end of the current fiscal year, the total General Fund balance was at a deficit of \$9,245. During the fiscal year ended February 29, 2004, expenditures were incurred by the fund for the construction of the Village Hall, which were paid with long-term advances from the enterprise funds. The deficit fund balance will be eliminated through future release of captured taxes.
- The Village's total long-term debt decreased by \$68,004 due to the scheduled repayments of debt in excess of a note payable obtained during the current fiscal year to finance the purchase of a new plow truck.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Village's basic financial statements. The Village's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

### **Government-Wide Financial Statements**

The *government-wide financial statements* are designed to provide readers with a broad overview of the Village's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Village's assets and liabilities, with the difference between the two reported as *net assets*. Overtime, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Village is improving or deteriorating.

The *statement of activities* presents information showing how the Village's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (for example, earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Village that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Village include general government, public safety, public works, community development and recreation and cultural. The business-type activities of the Village include water, sewer, waste collection and harbor operations.

The government-wide financial statements include not only the Village (known as the primary government), but also a legally separate entity - the Downtown Development Authority; which is a *discretely presented component unit* of the Village. Financial information for this *component unit* is reported separately from the financial information presented for the primary government.

The government-wide financial statements can be found on pages 12-14 of this report.

**Fund Financial Statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Village can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

*Governmental Funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds and governmental activities*.

The Village maintains nine individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Major Street, Local Street and Municipal Street Funds, each of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The Village adopts an annual appropriated budget for general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 15-24 of this report.

*Proprietary Funds* are also maintained by the Village. There are two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Village uses enterprise funds to account for its water, sewer, waste collection and harbor operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the Village's various functions. The Village uses an internal service fund to account for its motor pool. Because these services benefit general, major and local streets, and water, sewer, waste collection and harbor fund functions, the services have been allocated between the governmental and business-type activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The Village maintains four individual proprietary funds, all of which are considered to be major funds of the Village. Information is presented separately in the proprietary fund statement of net assets and in the proprietary fund statement of revenues, expenses and changes in net assets for the Water, Sewer, Waste Collection and Harbor Major Funds.

The basic proprietary fund financial statements can be found on pages 25-30 of this report and in the business-type activities in the government-wide financial statements.

*Fiduciary Funds* are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the Village's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statement can be found on page 31 of this report.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. They should be read thoroughly as part of any review of the Village's financial statements. The notes to the financial statements can be found on pages 32-45 of this report.

**Other Information.** The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 46-58 of this report.

### **Government-Wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Village, assets exceeded liabilities by \$11,648,813 at the close of the most recent fiscal year.

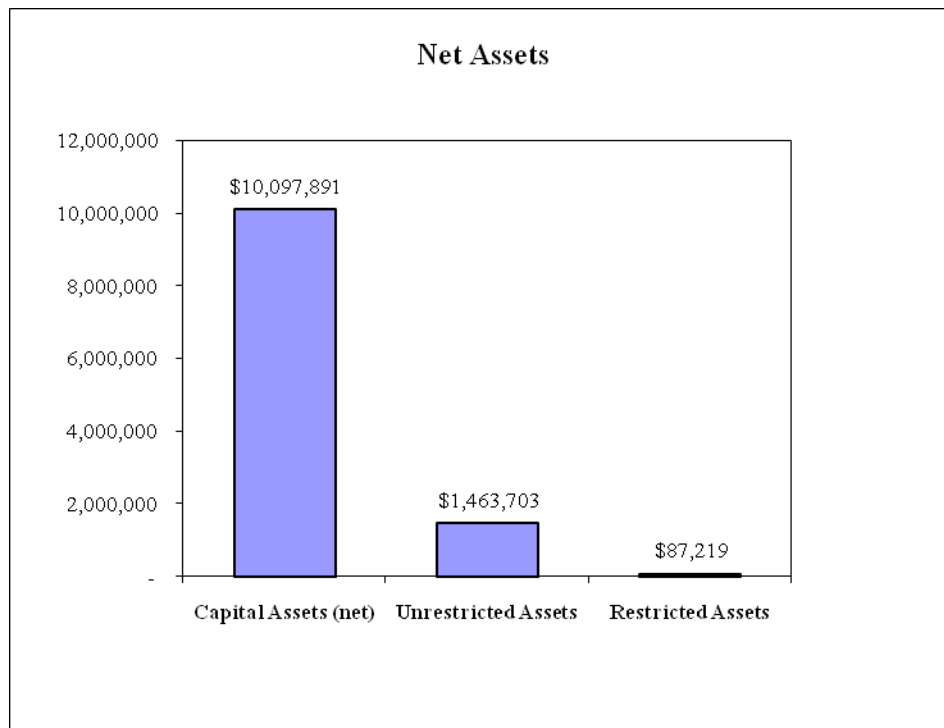
The largest portion of the Village's net assets (87%) reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Village uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Village's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.



**Village of Elk Rapids, Michigan**  
**Net Assets as of February 29, 2008**

	<b><u>Governmental Activities</u></b>		<b><u>Business-type Activities</u></b>		<b><u>Total</u></b>	
	<b><u>2008</u></b>	<b><u>2007</u></b>	<b><u>2008</u></b>	<b><u>2007</u></b>	<b><u>2008</u></b>	<b><u>2007</u></b>
Current and other assets	\$ 414,188	\$ 357,684	\$ 1,845,528	\$ 1,865,623	\$ 2,259,716	\$ 2,223,307
Capital assets, net	<u>3,029,171</u>	<u>2,308,276</u>	<u>8,987,260</u>	<u>8,865,887</u>	<u>12,016,431</u>	<u>11,174,163</u>
Total assets	<u>3,443,359</u>	<u>2,665,960</u>	<u>10,832,788</u>	<u>10,731,510</u>	<u>14,276,147</u>	<u>13,397,470</u>
Long-term liabilities						
outstanding	1,169,099	1,190,200	822,993	869,896	1,992,092	2,060,096
Other liabilities	<u>74,072</u>	<u>43,451</u>	<u>561,170</u>	<u>439,766</u>	<u>635,242</u>	<u>483,217</u>
Total liabilities	<u>1,243,171</u>	<u>1,233,651</u>	<u>1,384,163</u>	<u>1,309,662</u>	<u>2,627,334</u>	<u>2,543,313</u>
Net assets						
Invested in capital						
net of related debt	1,905,625	1,161,475	8,192,260	8,015,887	10,097,885	9,177,362
Restricted	-	-	87,219	85,221	87,219	85,221
Unrestricted	<u>294,563</u>	<u>270,834</u>	<u>1,169,146</u>	<u>1,320,740</u>	<u>1,463,709</u>	<u>1,591,574</u>
Total net assets	<b><u>\$ 2,200,188</u></b>	<b><u>\$ 1,432,309</u></b>	<b><u>\$ 9,448,625</u></b>	<b><u>\$ 9,421,848</u></b>	<b><u>\$ 11,648,813</u></b>	<b><u>\$ 10,854,157</u></b>

A portion of the Village's net assets (1%) represents resources that are subject to external restrictions on how they may be used both for the Village as a whole, as well as for its separate governmental and business-type activities. The balance in *restricted assets* reflects the Village's Bond Debt reserve. The remaining balance of *unrestricted net assets* (12%) may be used to meet the Village's ongoing obligations to citizens and creditors.



The government's net assets increased by \$794,656 during the current fiscal year. Governmental activities showed an increase of \$767,879 while business-type activities showed an increase of \$26,777.

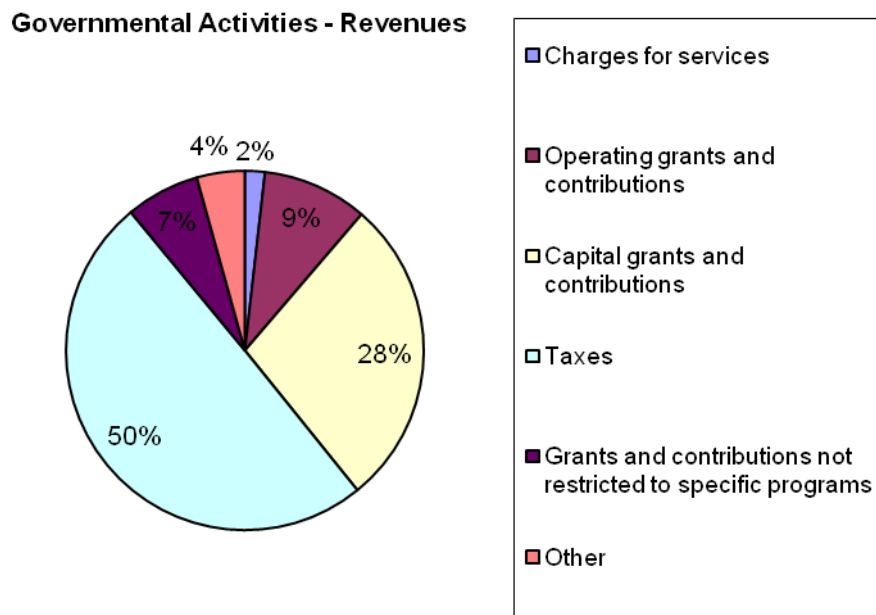
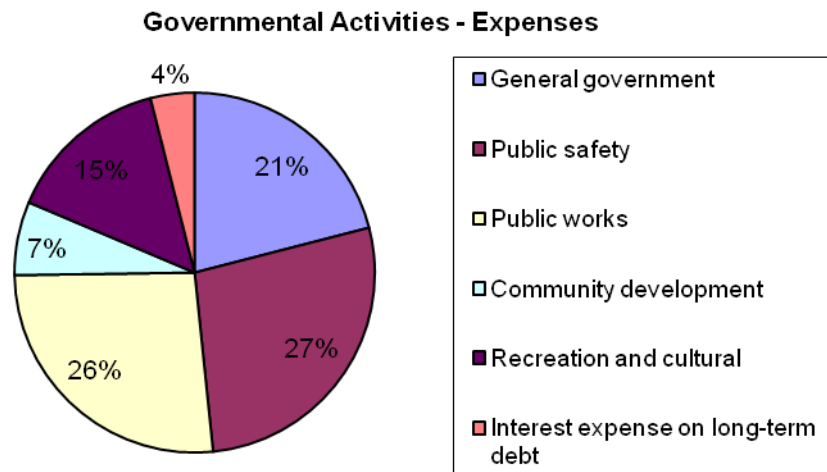
The following table illustrates and summarizes the aforementioned results of change in Net Assets for the Village and was derived from the Government-Wide Statement of Activities.

**Village of Elk Rapids, Michigan**  
**Change in Net Assets**  
**For the Fiscal Year Ended February 29, 2008**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
<b>Revenue</b>						
Program revenue						
Charges for services	\$ 38,837	\$ 74,081	\$ 1,747,241	\$ 1,687,221	\$ 1,786,078	\$ 1,761,302
Operating grants and contributions	205,384	206,169	-	5,778	205,384	211,947
Capital grants and contrib.	42,050	604,762	42,050	-	-	604,762
General revenue						
Taxes	1,078,588	1,035,071	122,900	138,686	1,201,488	1,173,757
Grants and contributions not restricted to specific programs	144,194	144,315	-	-	144,194	144,315
Unrestricted investment earnings	22,556	19,843	72,789	73,375	95,345	93,218
Other revenues	<u>71,114</u>	<u>39,792</u>	<u>21,273</u>	<u>22,444</u>	<u>92,387</u>	<u>62,236</u>
<b>Total revenue</b>	<b><u>2,165,435</u></b>	<b><u>1,561,321</u></b>	<b><u>1,964,203</u></b>	<b><u>1,927,504</u></b>	<b><u>4,129,638</u></b>	<b><u>3,488,825</u></b>
<b>Expenses</b>						
General government	307,684	284,001	-	-	307,684	284,001
Public safety	401,620	382,011	-	-	401,620	382,011
Public works	387,381	353,576	-	-	387,381	353,576
Community development	96,863	84,242	-	-	96,863	84,242
Recreation and cultural	215,197	209,163	-	-	215,197	209,163
Interest on long-term debt	57,811	62,030	-	-	57,811	62,030
Water	-	-	284,658	261,494	284,658	261,494
Sewer	-	-	503,633	472,567	503,633	472,567
Waste Collection	-	-	197,450	203,727	197,450	203,727
Harbor	-	-	911,436	821,857	911,436	821,857
<b>Total expenses</b>	<b><u>1,466,556</u></b>	<b><u>1,375,026</u></b>	<b><u>1,868,426</u></b>	<b><u>1,759,645</u></b>	<b><u>3,334,982</u></b>	<b><u>3,134,671</u></b>
Increase in net assets before transfers	698,879	186,295	95,777	167,859	794,656	354,154
Transfers	<u>69,000</u>	<u>18,272</u>	<u>(69,000)</u>	<u>(18,272)</u>	<u>-</u>	<u>-</u>
<b>Increase in net assets</b>	<b>767,879</b>	<b>204,567</b>	<b>26,777</b>	<b>149,587</b>	<b>794,656</b>	<b>354,154</b>
Net assets – beginning of year	<u>1,432,309</u>	<u>1,227,742</u>	<u>9,421,848</u>	<u>9,272,261</u>	<u>10,854,157</u>	<u>10,500,003</u>
<b>Net assets – end of year</b>	<b><u>\$ 2,200,188</u></b>	<b><u>\$ 1,432,309</u></b>	<b><u>\$ 9,448,625</u></b>	<b><u>\$ 9,421,848</u></b>	<b><u>\$ 11,648,813</u></b>	<b><u>\$ 10,854,157</u></b>

*Governmental Activities.* Governmental activities increased the Village's net assets by \$767,879, or 7.1%. Key elements of this performance are as follows:

- Property tax revenue rose slightly, while state shared revenue remained relatively flat.
- Construction of the Memorial Park Bathroom largely financed by local contributions.
- Expenses were largely held in check versus budget.



**Business-Type Activities.** Business-type activities increased the Village's net assets by \$26,777 or 0.2%. Key elements of this performance are as follows:

- The Water Fund – incremental water rate increase was implemented.
- The Harbor Fund – improved harbor revenue.

### **Financial Analysis of the Village's Funds**

As noted earlier, the Village uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

*Governmental Funds.* The focus of the Village's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Village's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a Village's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Village's governmental funds reported combined ending fund balances of \$348,274, an increase of \$36,247 in comparison with the prior year. No single item contributed to this overall increase.

The General Fund is the chief operating fund of the Village. At the end of the current fiscal year, the total General Fund balance was at a deficit of \$9,245. During the fiscal year ended February 29, 2004, expenditures were incurred by the fund for the construction of the Village Hall, which were paid with long-term advances from the enterprise funds. The deficit fund balance will be eliminated through future release of captured taxes.

The General Fund balance increased by \$10,480 during the current fiscal year. This is primarily attributable to reduced expenditures in anticipation of reduced revenue.

The Major, Local and Municipal Street Funds have total fund balances of \$265,726, which increased by \$40,081 during the year. This increase is due to non-implementation of the street overlay program.

*Proprietary Funds.* The Village's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water, Sewer, Waste Collection and Harbor Funds at the end of the year amounted to \$1,182,369, restricted assets of \$87,219 and capital assets net of related debt of \$8,192,260. The Water Fund had an increase in net assets for the year of \$99,834, the Sewer Fund had a decrease of \$167,119, the Waste Collection Fund had an increase of \$29,262 and the Harbor Fund had an increase of \$71,102.

## Capital Asset and Debt Administration

**Capital Assets.** The Village's capital assets for its governmental and business type activities as of February 29, 2008, amounted to \$12,016,431 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings and improvements, system improvements, vehicles, machinery and equipment, park facilities, roads, and sidewalks. The total increase in the Village's investment in capital assets for the current fiscal year was \$842,268 with governmental activity assets increasing by \$720,895 and business-type assets increasing by \$121,373.

Major capital asset events during the current fiscal year included the following:

- Construction of the Memorial Park Bathroom.
- Purchases of a snow plow truck and a pickup truck.

### *Village of Elk Rapids' Capital Assets* (net of depreciation)

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
Land	\$ 585,021	\$ 26,430	\$ 611,451
Construction-in-progress	41,069	-	41,069
Land improvements	320,754	-	320,754
Infrastructure	716,863	-	716,863
Buildings and structures	1,062,993	499,196	1,562,189
Improvements to systems	-	8,412,181	8,412,181
Vehicles	53,908	-	53,908
Furniture and equipment	248,563	49,453	298,016
<b>Total</b>	<b>\$ 3,029,171</b>	<b>\$ 8,987,260</b>	<b>\$ 12,016,431</b>

Additional information on the Village's capital assets can be found in Note III.C on pages 39-40 of this report.

**Long-Term Debt.** At the end of the current fiscal year, the Village had total bonded debt and note payables of \$1,918,546. Of this amount, \$845,000 comprises debt backed by the full faith and credit of the government (not including the DDA bonded debt). The remainder of the Village's debt represents notes payable and bonds secured solely by specified revenue sources (i.e., revenue bonds).

### **Village of Elk Rapids' Outstanding Debt** General Obligation Notes / Bonds and Revenue Bonds

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
General obligation bonds	\$ 845,000	\$ -	\$ 845,000
Notes payable	278,546	-	278,546
Revenue bonds	-	795,000	795,000
<b>Total</b>	<b>\$ 1,123,546</b>	<b>\$ 795,000</b>	<b>\$ 1,918,546</b>

The Village's total long-term debt decreased by \$68,004 due to the scheduled repayments of debt in excess of a note payable obtained during the current fiscal year to finance the purchase of a new plow truck.

Additional information on the Village's long-term debt can be found in Note III.E on pages 42-43 of this report.

## **Economic Factors and Next Year's Budgets and Rates**

The following significant factors were considered in preparing the Village's budget for the 2008-09 fiscal year:

- Flat or slightly increased State revenue sharing.
- Increased taxable value that would not be attributed to the DDA, TIFA districts.
- Termination of the Westside DDA Tax Increment Finance District.
- Electrical improvements in Harbor.
- Water system connection of a third village well.
- Harbor dredging (hydraulic and mechanical).
- Sidewalk improvements.
- Adjustments to the Village recycling program.
- Sewer lift station improvements.
- River Street improvements (Pine to Oak Street).
- Water main reconstruction (various locations).
- Sanitary sewer inflow and infiltration study.
- Major water tower maintenance.
- Downtown Development Authority construction of Lake/Ames Street.
- Purchase of a police cruiser.
- Purchase of a pickup truck.

## **Requests for Information**

This discussion and analysis is designed to provide a general overview of the Village's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Village Manager, Village of Elk Rapids, 315 Bridge Street, P.O. Box 398, Elk Rapids, Michigan 49629-0398.

**VILLAGE OF ELK RAPIDS, MICHIGAN**

**STATEMENT OF NET ASSETS**

**FEBRUARY 29, 2008**

	<b>PRIMARY GOVERNMENT</b>			<b>COMPONENT UNIT</b>
	<b>GOVERNMENTAL ACTIVITIES</b>	<b>BUSINESS TYPE ACTIVITIES</b>	<b>TOTAL</b>	<b>DOWNTOWN DEVELOPMENT AUTHORITY</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 495,647	\$ 1,342,287	\$ 1,837,934	\$ 546,769
Receivables	81,740	68,650	150,390	-
Due from other governments	97,943	-	97,943	-
Prepaid items	12,886	7,086	19,972	79
Inventory	-	53,174	53,174	-
Restricted cash	-	87,219	87,219	-
Unamortized bond discount	-	13,084	13,084	-
Internal balances	(274,028)	274,028	-	-
Land	585,021	26,430	611,451	-
Construction in progress	41,069	-	41,069	-
Capital assets, net	2,403,081	8,960,830	11,363,911	-
<b>TOTAL ASSETS</b>	<b>3,443,359</b>	<b>10,832,788</b>	<b>14,276,147</b>	<b>546,848</b>
<b>LIABILITIES</b>				
Accounts payable	36,754	126,651	163,405	15,269
Accrued expenses	21,761	11,356	33,117	534
Accrued interest payable	15,557	6,416	21,973	6,055
Unearned revenue	-	416,747	416,747	-
Long-term liabilities				
Due within one year	276,546	55,000	331,546	195,000
Due in more than one year	892,553	767,993	1,660,546	110,000
<b>TOTAL LIABILITIES</b>	<b>1,243,171</b>	<b>1,384,163</b>	<b>2,627,334</b>	<b>326,858</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	1,905,625	8,192,260	10,097,885	-
Restricted for				
Debt service	-	87,219	87,219	-
Unrestricted	294,563	1,169,146	1,463,709	219,990
<b>TOTAL NET ASSETS</b>	<b>\$ 2,200,188</b>	<b>\$ 9,448,625</b>	<b>\$ 11,648,813</b>	<b>\$ 219,990</b>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF ELK RAPIDS, MICHIGAN

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED FEBRUARY 29, 2008

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
<b>PRIMARY GOVERNMENT</b>					
Governmental activities					
General government	\$ 307,684	\$ 25,027	\$ 26,211	\$ 61,227	\$ (195,219)
Public safety	401,620	13,810	1,152	-	(386,658)
Public works	387,381	-	177,421	543,535	333,575
Community development	96,863	-	-	-	(96,863)
Recreation and cultural	215,197	-	600	-	(214,597)
Interest expense on long-term debt	57,811	-	-	-	(57,811)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>1,466,556</b>	<b>38,837</b>	<b>205,384</b>	<b>604,762</b>	<b>(617,573)</b>
Business-type activities					
Water	284,658	365,052	-	-	80,394
Sewer	503,633	371,795	-	-	(131,838)
Waste collection	197,450	98,958	-	-	(98,492)
Harbor	882,685	911,436	-	-	28,751
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>1,868,426</b>	<b>1,747,241</b>	<b>-</b>	<b>-</b>	<b>(121,185)</b>
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 3,334,982</b>	<b>\$ 1,786,078</b>	<b>\$ 205,384</b>	<b>\$ 604,762</b>	<b>\$ (738,758)</b>
<b>COMPONENT UNIT</b>					
Downtown development authority	\$ 758,331	\$ -	\$ -	\$ -	\$ (758,331)

Continued...

The accompanying notes are an integral part of these financial statements.



VILLAGE OF ELK RAPIDS, MICHIGAN

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED FEBRUARY 29, 2008

FUNCTIONS/PROGRAMS	PRIMARY GOVERNMENT			COMPONENT UNIT
	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTAL	DOWNTOWN DEVELOPMENT AUTHORITY
<b>CHANGE IN NET ASSETS</b>				
Net (expense) revenue	\$ (617,573)	\$ (121,185)	\$ (738,758)	\$ (758,331)
General revenues				
Taxes	1,078,588	122,900	1,201,488	659,646
Grants and contributions not restricted to specific programs	144,194	-	144,194	26,747
Unrestricted investment earnings	22,556	72,789	95,345	30,220
Other revenues	71,114	21,273	92,387	4,789
Internal transfers	69,000	(69,000)	-	-
<b>TOTAL GENERAL REVENUES AND TRANSFERS</b>	<b>1,385,452</b>	<b>147,962</b>	<b>1,533,414</b>	<b>721,402</b>
<b>CHANGE IN NET ASSETS</b>	<b>767,879</b>	<b>26,777</b>	<b>794,656</b>	<b>(36,929)</b>
NET ASSETS, BEGINNING OF YEAR	1,432,309	9,421,848	10,854,157	256,919
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 2,200,188</b>	<b>\$ 9,448,625</b>	<b>\$ 11,648,813</b>	<b>\$ 219,990</b>

Concluded

The accompanying notes are an integral part of these financial statements.

# VILLAGE OF ELK RAPIDS, MICHIGAN

## BALANCE SHEET GOVERNMENTAL FUNDS

FEBRUARY 29, 2008

	General Fund	Major Street Fund	Local Street Fund
<b>ASSETS</b>			
Cash and cash equivalents	\$ 193,947	\$ 66,263	\$ 91,747
Receivables			
Accounts	7	-	-
Taxes	58,417	-	-
Due from other governments	44,846	37,173	15,924
Prepaid items	9,565	934	952
<b>TOTAL ASSETS</b>	<b><u>\$ 306,782</u></b>	<b><u>\$ 104,370</u></b>	<b><u>\$ 108,623</u></b>
<b>LIABILITIES AND FUND BALANCES (DEFICIT)</b>			
<b>Liabilities</b>			
Accounts payable	\$ 12,786	\$ 2,987	\$ 2,446
Accrued expenses	15,995	1,950	1,854
Advances from other funds	287,246	-	-
<b>Total liabilities</b>	<b><u>316,027</u></b>	<b><u>4,937</u></b>	<b><u>4,300</u></b>
<b>Fund balances (deficit)</b>			
Reserved			
Prepaid items	-	934	952
Unreserved			
Designated for subsequent years' expenditures	-	43,800	90,000
Undesignated (deficit), reported in nonmajor			
Special revenue fund	-	-	-
Debt service funds	-	-	-
Capital projects funds	-	-	-
Undesignated (deficit)	(9,245)	54,699	13,371
<b>Total fund balances (deficit)</b>	<b><u>(9,245)</u></b>	<b><u>99,433</u></b>	<b><u>104,323</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 306,782</u></b>	<b><u>\$ 104,370</u></b>	<b><u>\$ 108,623</u></b>

The accompanying notes are an integral part of these financial statements.

<b>Municipal Street Fund</b>	<b>Nonmajor Governmental Funds</b>	<b>Total</b>
\$ 47,676	\$ 92,072	\$ 491,705
-	4,130	4,137
16,249	2,937	77,603
-	-	97,943
-	-	11,451
<b>\$ 63,925</b>	<b>\$ 99,139</b>	<b>\$ 682,839</b>
\$ 1,955	\$ 7,346	\$ 27,520
-	-	19,799
-	-	287,246
<b>1,955</b>	<b>7,346</b>	<b>334,565</b>
-	-	1,886
-	-	133,800
-	(7,346)	(7,346)
-	43,754	43,754
-	55,385	55,385
61,970	-	120,795
<b>61,970</b>	<b>91,793</b>	<b>348,274</b>
<b>\$ 63,925</b>	<b>\$ 99,139</b>	<b>\$ 682,839</b>

Continued...

**VILLAGE OF ELK RAPIDS, MICHIGAN**

**BALANCE SHEET  
GOVERNMENTAL FUNDS**

**FEBRUARY 29, 2008**

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**RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS  
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS**

FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$	348,274
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Amounts reported for governmental activities in the statement of net assets are different because:

Certain assets used in governmental activities, such as capital assets, are not financial resources, and therefore not reported in the funds.

Add: capital assets	3,559,304
Subtract: accumulated depreciation	(795,791)

An internal service fund is used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. Certain assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Add: net assets of governmental activities accounted for in internal service funds	186,385
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Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.

Subtract: bonds payable	(845,000)
Subtract: notes payable	(194,990)
Subtract: accrued interest on long-term liabilities	(15,557)
Subtract: accrued compensated absences	(42,437)

<b>NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<b>\$</b>	<b><u>2,200,188</u></b>
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Concluded

The accompanying notes are an integral part of these financial statements.

**VILLAGE OF ELK RAPIDS, MICHIGAN**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**

**FOR THE YEAR ENDED FEBRUARY 29, 2008**

	<b>General Fund</b>	<b>Major Street Fund</b>	<b>Local Street Fund</b>
<b>REVENUES</b>			
Taxes	\$ 794,035	\$ -	\$ -
State revenue	145,346	125,738	51,683
Contributions from local governments	26,211	-	-
Charges for services	7,568	-	-
Licenses and permits	5,439	-	-
Fines and forfeitures	6,705	-	-
Interest revenue	8,857	2,397	3,111
Refunds and reimbursements	3,348	-	-
Other revenue	15,146	-	-
<b>TOTAL REVENUES</b>	<b>1,012,655</b>	<b>128,135</b>	<b>54,794</b>
<b>EXPENDITURES</b>			
Current operations			
General government	220,582	-	-
Public safety	389,155	-	-
Public works	-	156,870	127,703
Community development	87,517	-	-
Recreation and cultural	208,337	-	-
Debt service			
Principal	29,737	-	-
Interest expense	14,835	-	-
Capital outlay	3,336	-	-
<b>TOTAL EXPENDITURES</b>	<b>953,499</b>	<b>156,870</b>	<b>127,703</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>59,156</b>	<b>(28,735)</b>	<b>(72,909)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	15,500	63,000	86,741
Transfers out	(64,176)	(2,250)	(2,250)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(48,676)</b>	<b>60,750</b>	<b>84,491</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>10,480</b>	<b>32,015</b>	<b>11,582</b>
FUND BALANCES (DEFICITS), BEGINNING OF YEAR	(19,725)	67,418	92,741
<b>FUND BALANCES (DEFICIT), END OF YEAR</b>	<b>\$ (9,245)</b>	<b>\$ 99,433</b>	<b>\$ 104,323</b>

The accompanying notes are an integral part of these financial statements.

<b>Municipal Street Fund</b>	<b>Nonmajor Governmental Funds</b>	<b>Total</b>
\$ 238,606	\$ 45,947	\$ 1,078,588
-	-	322,767
-	61,227	87,438
-	19,125	26,693
-	-	5,439
-	-	6,705
1,850	5,027	21,242
-	-	3,348
7,616	44,186	66,948
<b>248,072</b>	<b>175,512</b>	<b>1,619,168</b>
-	43,632	264,214
-	-	389,155
54,683	-	339,256
-	-	87,517
-	-	208,337
-	50,000	79,737
-	43,193	58,028
-	222,341	225,677
<b>54,683</b>	<b>359,166</b>	<b>1,651,921</b>
<b>193,389</b>	<b>(183,654)</b>	<b>(32,753)</b>
-	171,340	336,581
(196,905)	(2,000)	(267,581)
<b>(196,905)</b>	<b>169,340</b>	<b>69,000</b>
<b>(3,516)</b>	<b>(14,314)</b>	<b>36,247</b>
65,486	106,107	312,027
<b>\$ 61,970</b>	<b>\$ 91,793</b>	<b>\$ 348,274</b>

Continued...

**VILLAGE OF ELK RAPIDS, MICHIGAN**

**STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS**

**FOR THE YEAR ENDED FEBRUARY 29, 2008**

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**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND  
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$	36,247
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay		778,212
Subtract: depreciation expense		(101,222)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities		79,737
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Add: decrease in accrued interest on long-term liabilities		1,034
Subtract: increase in the accrual of compensated absences		(1,609)

An internal service fund is used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The net operating income of the internal service fund is partially reported with governmental activities.

Subtract: net loss of certain activities of the internal service fund reported with governmental activities		(24,520)
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<b>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<b>\$</b>	<b>767,879</b>
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Concluded

The accompanying notes are an integral part of these financial statements.

**VILLAGE OF ELK RAPIDS, MICHIGAN**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET TO ACTUAL  
GENERAL FUND**

**FOR THE YEAR ENDED FEBRUARY 29, 2008**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Amended Budget to Actual Positive (Negative)</b>
<b>REVENUES</b>				
Taxes	\$ 1,099,599	\$ 1,092,423	\$ 794,035	\$ (298,388)
State revenue	147,805	147,805	145,346	(2,459)
Contributions from local governments	25,270	28,632	26,211	(2,421)
Charges for services	4,350	7,455	7,568	113
Licenses and permits	3,875	9,375	5,439	(3,936)
Fines and forfeitures	8,500	8,500	6,705	(1,795)
Interest revenue	4,500	8,300	8,857	557
Refunds and reimbursements	-	3,326	3,348	22
Other revenue	1,500	11,897	15,146	3,249
<b>TOTAL REVENUES</b>	<b>1,295,399</b>	<b>1,317,713</b>	<b>1,012,655</b>	<b>(305,058)</b>
<b>EXPENDITURES</b>				
<b>GENERAL GOVERNMENT</b>				
Village manager				
Salary and wages	38,480	38,480	38,674	(194)
Fringes	13,315	13,315	13,396	(81)
Supplies	200	200	-	200
Workshops and conferences	4,000	4,000	3,061	939
Other charges	1,175	1,175	1,152	23
Total village manager	57,170	57,170	56,283	887
Elections				
Supplies	-	-	-	-
Contractual services	-	-	-	-
Printing and publishing	-	-	-	-
Total elections	-	-	-	-
General services administration				
Salary and wages	19,000	19,000	19,548	(548)
Fringes	1,495	1,495	1,575	(80)
Contractual services	11,500	12,100	13,415	(1,315)
Attorney fees	6,000	10,804	11,105	(301)
Audit fees	5,000	5,000	4,079	921
Workshops and conferences	3,000	3,000	1,701	1,299
Community promotion	3,000	3,000	2,795	205
Insurance	15,310	14,000	13,999	1
Other charges	1,200	9,790	9,819	(29)
Total general services administration	65,505	78,189	78,036	153

Continued...

The accompanying notes are an integral part of these financial statements.



# VILLAGE OF ELK RAPIDS, MICHIGAN

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET TO ACTUAL GENERAL FUND

FOR THE YEAR ENDED FEBRUARY 29, 2008

	Original Budget	Amended Budget	Actual	Amended Budget to Actual Positive (Negative)
<b>EXPENDITURES (CONTINUED)</b>				
<b>GENERAL GOVERNMENT (Concluded)</b>				
Village hall administration				
Salary and wages	\$ 37,450	\$ 37,450	\$ 38,817	\$ (1,367)
Fringes	17,230	17,230	18,418	(1,188)
Supplies	5,900	5,900	5,892	8
Contractual services	3,500	3,500	695	2,805
Printing and publishing	6,000	8,000	7,878	122
Postage	4,500	4,500	2,263	2,237
Workshops and conferences	2,500	3,500	3,671	(171)
Phone	1,000	1,000	500	500
Insurance	1,755	1,755	1,571	184
Repair and maintenance	400	400	220	180
Hydrant rental	6,000	6,000	6,000	-
Other charges	100	100	338	(238)
Total Village hall administration	86,335	89,335	86,263	3,072
<b>TOTAL GENERAL GOVERNMENT</b>	<b>209,010</b>	<b>224,694</b>	<b>220,582</b>	<b>4,112</b>
<b>PUBLIC SAFETY</b>				
Police				
Salary and wages	233,300	233,300	240,702	(7,402)
Fringes	92,695	97,610	96,870	740
Uniforms	5,500	5,500	3,396	2,104
Supplies	4,800	4,800	3,852	948
Fuel	7,500	7,500	8,889	(1,389)
Repair and maintenance	14,500	14,500	10,741	3,759
Phone	3,500	3,500	3,248	252
Workshop and conferences	1,500	1,500	2,169	(669)
Printing and publishing	500	500	71	429
Insurance	9,940	9,940	9,201	739
Utilities	4,500	4,500	4,474	26
Other charges	7,100	7,100	5,542	1,558
<b>TOTAL PUBLIC SAFETY</b>	<b>385,335</b>	<b>390,250</b>	<b>389,155</b>	<b>1,095</b>
<b>COMMUNITY DEVELOPMENT</b>				
Salary and wages	45,890	45,890	47,258	(1,368)
Fringes	22,710	22,710	22,789	(79)
Contractual services	3,700	3,700	234	3,466
Workshops and conferences	5,000	5,000	2,165	2,835
Printing and publishing	4,500	4,500	1,546	2,954
Other charges	14,710	22,710	13,525	9,185
<b>TOTAL COMMUNITY DEVELOPMENT</b>	<b>96,510</b>	<b>104,510</b>	<b>87,517</b>	<b>16,993</b>

Continued...

The accompanying notes are an integral part of these financial statements.

**VILLAGE OF ELK RAPIDS, MICHIGAN**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET TO ACTUAL  
GENERAL FUND**

**FOR THE YEAR ENDED FEBRUARY 29, 2008**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Amended Budget to Actual Positive (Negative)</b>
<b>EXPENDITURES (CONTINUED)</b>				
<b>RECREATION AND CULTURAL</b>				
Parks maintenance expense				
Salary and wages	\$ 66,890	\$ 67,890	\$ 64,937	\$ 2,953
Fringes	27,960	27,960	27,091	869
Supplies	5,000	5,000	4,032	968
Contractual services	17,000	18,500	19,077	(577)
Repair and maintenance	6,500	6,500	5,058	1,442
Insurance	1,735	1,735	1,557	178
Utilities	6,900	6,900	6,686	214
Equipment rental	55,000	58,000	58,000	-
Other charges	700	700	1,396	(696)
Total parks maintenance expense	187,685	193,185	187,834	5,351
Beautification department				
Supplies	1,480	1,480	1,804	(324)
Contractual services	8,710	18,010	17,641	369
Workshops and conferences	850	550	544	6
Other	1,941	640	514	126
Total beautification department	12,981	20,680	20,503	177
<b>TOTAL RECREATION AND CULTURAL</b>	<b>200,666</b>	<b>213,865</b>	<b>208,337</b>	<b>5,528</b>
<b>DEBT SERVICE</b>				
Principal	42,860	27,981	29,737	(1,756)
Interest expense	15,500	15,500	14,835	665
<b>TOTAL DEBT SERVICE</b>	<b>58,360</b>	<b>43,481</b>	<b>44,572</b>	<b>(1,091)</b>
<b>CAPITAL OUTLAY</b>	<b>2,500</b>	<b>4,120</b>	<b>3,336</b>	<b>784</b>
<b>TOTAL EXPENDITURES</b>	<b>952,381</b>	<b>980,920</b>	<b>953,499</b>	<b>27,421</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>343,018</b>	<b>336,793</b>	<b>59,156</b>	<b>(277,637)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	15,000	17,000	15,500	(1,500)
Transfers out	(62,585)	(62,585)	(64,176)	(1,591)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(47,585)</b>	<b>(45,585)</b>	<b>(48,676)</b>	<b>(3,091)</b>
<b>REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<b>295,433</b>	<b>291,208</b>	<b>10,480</b>	<b>(280,728)</b>
FUND BALANCE (DEFICIT), BEGINNING OF YEAR	(19,725)	(19,725)	(19,725)	-
<b>FUND BALANCE (DEFICIT), END OF YEAR</b>	<b>\$ 275,708</b>	<b>\$ 271,483</b>	<b>\$ (9,245)</b>	<b>\$ (280,728)</b>

The accompanying notes are an integral part of these financial statements.

Concluded

**VILLAGE OF ELK RAPIDS, MICHIGAN**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET TO ACTUAL  
MAJOR STREET FUND**

**FOR THE YEAR ENDED FEBRUARY 29, 2008**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Amended Budget to Actual Positive (Negative)</b>
<b>REVENUES</b>				
State revenue	\$ 111,947	\$ 126,172	\$ 125,738	\$ (434)
Interest revenue	1,100	2,500	2,397	(103)
<b>TOTAL REVENUES</b>	<b>113,047</b>	<b>128,672</b>	<b>128,135</b>	<b>(537)</b>
<b>EXPENDITURES</b>				
<b>Public works</b>				
Routine maintenance				
Salary and wages	34,430	36,230	35,231	999
Fringe benefits	14,445	14,445	13,763	682
Supplies	3,000	3,000	2,470	530
Contractual services	30,445	30,445	15,531	14,914
Repair and maintenance	13,500	13,500	12,839	661
Equipment rent	22,000	23,500	23,500	-
Other	500	500	-	500
Total routine maintenance	118,320	121,620	103,334	18,286
Winter maintenance				
Salary and wages	15,450	15,450	15,183	267
Fringe benefits	6,220	6,220	6,236	(16)
Supplies	4,500	4,500	2,977	1,523
Equipment rent	27,640	29,140	29,140	-
Total winter maintenance	53,810	55,310	53,536	1,774
<b>TOTAL EXPENDITURES</b>	<b>172,130</b>	<b>176,930</b>	<b>156,870</b>	<b>20,060</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(59,083)</b>	<b>(48,258)</b>	<b>(28,735)</b>	<b>19,523</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	63,000	63,000	63,000	-
Transfers out	(2,250)	(2,250)	(2,250)	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>60,750</b>	<b>60,750</b>	<b>60,750</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>1,667</b>	<b>12,492</b>	<b>32,015</b>	<b>19,523</b>
FUND BALANCE, BEGINNING OF YEAR	67,418	67,418	67,418	-
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 69,085</b>	<b>\$ 79,910</b>	<b>\$ 99,433</b>	<b>\$ 19,523</b>

The accompanying notes are an integral part of these financial statements.

**VILLAGE OF ELK RAPIDS, MICHIGAN**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET TO ACTUAL  
LOCAL STREET FUND**

**FOR THE YEAR ENDED FEBRUARY 29, 2008**

	Original Budget	Amended Budget	Actual	Amended Budget to Actual Positive (Negative)
<b>REVENUES</b>				
State revenue	\$ 45,909	\$ 58,085	\$ 51,683	\$ (6,402)
Interest revenue	500	3,000	3,111	111
<b>TOTAL REVENUES</b>	<b>46,409</b>	<b>61,085</b>	<b>54,794</b>	<b>(6,291)</b>
<b>EXPENDITURES</b>				
<b>Public works</b>				
Routine maintenance				
Salary and wages	32,875	32,875	32,483	392
Fringe benefits	13,710	13,710	12,777	933
Supplies	2,000	2,000	1,494	506
Contractual services	3,695	3,695	3,302	393
Repair and maintenance	12,700	12,700	11,725	975
Equipment rent	18,555	20,055	20,055	-
Other	500	500	-	500
Total routine maintenance	84,035	85,535	81,836	3,699
Winter maintenance				
Salary and wages	18,015	18,015	18,812	(797)
Fringe benefits	7,375	7,375	7,074	301
Supplies	3,500	3,500	1,506	1,994
Equipment rent	16,975	18,475	18,475	-
Total winter maintenance	45,865	47,365	45,867	1,498
Construction - street overlay	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>129,900</b>	<b>132,900</b>	<b>127,703</b>	<b>5,197</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(83,491)</b>	<b>(71,815)</b>	<b>(72,909)</b>	<b>(1,094)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	86,741	86,741	86,741	-
Transfers out	(2,250)	(2,250)	(2,250)	-
<b>TOTAL OTHER FINANCING SOURCES</b>	<b>84,491</b>	<b>84,491</b>	<b>84,491</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>1,000</b>	<b>12,676</b>	<b>11,582</b>	<b>(1,094)</b>
FUND BALANCE, BEGINNING OF YEAR	92,741	92,741	92,741	-
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 93,741</b>	<b>\$ 105,417</b>	<b>\$ 104,323</b>	<b>\$ (1,094)</b>

The accompanying notes are an integral part of these financial statements.

**VILLAGE OF ELK RAPIDS, MICHIGAN**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET TO ACTUAL  
MUNICIPAL STREET FUND**

**FOR THE YEAR ENDED FEBRUARY 29, 2008**

	Original Budget	Amended Budget	Actual	Amended Budget to Actual Positive (Negative)
<b>REVENUES</b>				
Taxes	\$ 238,382	\$ 240,147	\$ 238,606	\$ (1,541)
Interest revenue	500	1,850	1,850	-
Other revenue	8,670	9,042	7,616	(1,426)
<b>TOTAL REVENUES</b>	<b>247,552</b>	<b>251,039</b>	<b>248,072</b>	<b>(2,967)</b>
<b>EXPENDITURES</b>				
Public works				
Street lighting	30,000	30,000	30,819	(819)
Other	23,894	23,894	23,864	30
<b>TOTAL EXPENDITURES</b>	<b>53,894</b>	<b>53,894</b>	<b>54,683</b>	<b>(789)</b>
<b>REVENUES OVER EXPENDITURES</b>	<b>193,658</b>	<b>197,145</b>	<b>193,389</b>	<b>(3,756)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	(196,905)	(196,905)	(196,905)	-
<b>NET CHANGE IN FUND BALANCE</b>	<b>(3,247)</b>	<b>240</b>	<b>(3,516)</b>	<b>(3,756)</b>
FUND BALANCE, BEGINNING OF YEAR	65,486	65,486	65,486	-
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 62,239</b>	<b>\$ 65,726</b>	<b>\$ 61,970</b>	<b>\$ (3,756)</b>

The accompanying notes are an integral part of these financial statements.

**VILLAGE OF ELK RAPIDS, MICHIGAN**

**STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS**

**FEBRUARY 29, 2008**

	<b>Business-Type Activities</b>		
	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Waste Collection Fund</b>
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	\$ 168,843	\$ 329,611	\$ 64,994
Restricted cash and cash equivalents	-	-	-
Accounts receivable	27,052	33,228	-
Taxes receivable	-	-	8,370
Prepaid items	1,436	1,049	940
Inventory	27,867	3,011	1,700
<b>Total current assets</b>	<b>225,198</b>	<b>366,899</b>	<b>76,004</b>
<b>Noncurrent assets</b>			
Land	25,800	630	-
Capital assets (net of accumulated depreciation)	2,236,761	2,064,853	30,088
Unamortized bond discount	-	-	-
Advances to other funds	-	-	-
<b>Total noncurrent assets</b>	<b>2,262,561</b>	<b>2,065,483</b>	<b>30,088</b>
<b>TOTAL ASSETS</b>	<b>2,487,759</b>	<b>2,432,382</b>	<b>106,092</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable	3,656	80,555	6,140
Accrued expenses	2,824	2,736	2,176
Accrued interest	-	-	-
Unearned revenue	-	-	-
Current portion of long-term debt	-	-	-
<b>Total current liabilities</b>	<b>6,480</b>	<b>83,291</b>	<b>8,316</b>
<b>Long term liabilities</b>			
Accrued compensated absences	9,834	3,088	2,684
Advances from other funds	-	-	42,241
Notes payable less current portion	-	-	-
Bonds payable less current portion	-	-	-
<b>Total long term liabilities</b>	<b>9,834</b>	<b>3,088</b>	<b>44,925</b>
<b>TOTAL LIABILITIES</b>	<b>16,314</b>	<b>86,379</b>	<b>53,241</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	2,262,561	2,065,483	30,088
Restricted for debt service	-	-	-
Unrestricted	208,884	280,520	22,763
<b>TOTAL NET ASSETS</b>	<b>\$ 2,471,445</b>	<b>\$ 2,346,003</b>	<b>\$ 52,851</b>

The accompanying notes are an integral part of these financial statements.

		Governmental Activities
Harbor Fund	Total	Internal Service Fund
\$ 778,839	\$ 1,342,287	\$ 3,942
87,219	87,219	-
-	60,280	-
-	8,370	-
3,666	7,091	1,435
20,596	53,174	-
<b>890,320</b>	<b>1,558,421</b>	<b>5,377</b>
-	26,430	14,012
4,629,128	8,960,830	251,647
13,084	13,084	-
329,487	329,487	-
<b>4,971,699</b>	<b>9,329,831</b>	<b>265,659</b>
<b>5,862,019</b>	<b>10,888,252</b>	<b>271,036</b>
36,300	126,651	9,234
3,620	11,356	1,962
6,416	6,416	-
416,747	416,747	-
55,000	55,000	26,556
<b>518,083</b>	<b>616,170</b>	<b>37,752</b>
12,387	27,993	3,122
-	42,241	-
-	-	57,000
740,000	740,000	-
<b>752,387</b>	<b>810,234</b>	<b>60,122</b>
<b>1,270,470</b>	<b>1,426,404</b>	<b>97,874</b>
3,834,128	8,192,260	173,162
87,219	87,219	-
670,202	1,182,369	-
<b>\$ 4,591,549</b>	<b>\$ 9,461,848</b>	<b>\$ 173,162</b>

Continued...

**VILLAGE OF ELK RAPIDS, MICHIGAN**

**STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS**

**FEBRUARY 29, 2008**

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**RECONCILIATION OF NET ASSETS ON THE STATEMENT OF NET ASSETS FOR ENTERPRISE FUNDS  
TO NET ASSETS OF BUSINESS-TYPE ACTIVITIES ON THE STATEMENT OF NET ASSETS**

NET ASSETS - TOTAL ENTERPRISE FUNDS \$ 9,461,848

Amounts reported for business-type activities in the statement of net assets are different because:

Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. Certain assets and liabilities of the internal service fund are included in business-type activities in the statement of net assets.

Subtract: net assets of business-type activities accounted for in internal service funds (13,223)

**NET ASSETS OF BUSINESS-TYPE ACTIVITIES** \$ 9,448,625

Concluded

The accompanying notes are an integral part of these financial statements.



# VILLAGE OF ELK RAPIDS, MICHIGAN

## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS PROPRIETARY FUNDS

FOR THE YEAR ENDED FEBRUARY 29, 2008

	Business-Type Activities		
	Water Fund	Sewer Fund	Waste Collection Fund
<b>OPERATING REVENUES</b>	\$ 365,052	\$ 371,795	\$ 98,958
<b>OPERATING EXPENSES</b>			
Water operations	205,434	-	-
Sewer operations	-	418,947	-
Waste collection operations	-	-	191,378
Harbor operations	-	-	-
Motor pool operations	-	-	-
Depreciation	71,677	79,040	3,589
<b>TOTAL OPERATING EXPENSES</b>	<b>277,111</b>	<b>497,987</b>	<b>194,967</b>
<b>OPERATING INCOME (LOSS)</b>	<b>87,941</b>	<b>(126,192)</b>	<b>(96,009)</b>
<b>NON-OPERATING REVENUE (EXPENSE)</b>			
Taxes	-	-	122,900
State revenue	-	-	-
Interest revenue	13,922	18,810	2,809
Other revenue	4,235	6,527	3,158
Interest expense	(4,014)	(4,014)	(1,346)
<b>TOTAL NON-OPERATING REVENUE (EXPENSE)</b>	<b>14,143</b>	<b>21,323</b>	<b>127,521</b>
Net income (loss) before transfers	102,084	(104,869)	31,512
<b>TRANSFERS</b>			
Transfers out	(2,250)	(62,250)	(2,250)
<b>CHANGE IN NET ASSETS</b>	<b>99,834</b>	<b>(167,119)</b>	<b>29,262</b>
NET ASSETS, BEGINNING OF YEAR	2,371,611	2,513,122	23,589
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 2,471,445</b>	<b>\$ 2,346,003</b>	<b>\$ 52,851</b>

The accompanying notes are an integral part of these financial statements.

		<b>Governmental Activities</b>
<b>Harbor Fund</b>	<b>Total</b>	<b>Internal Service Fund</b>
\$ 911,436	\$ 1,747,241	\$ 187,205
-	205,434	-
-	418,947	-
-	191,378	-
650,826	650,826	-
-	-	168,541
189,833	344,139	51,401
<b>840,659</b>	<b>1,810,724</b>	<b>219,942</b>
<b>70,777</b>	<b>(63,483)</b>	<b>(32,737)</b>
-	122,900	-
-	-	-
37,248	72,789	1,314
7,353	21,273	1,418
(42,026)	(51,400)	(817)
<b>2,575</b>	<b>165,562</b>	<b>1,915</b>
73,352	102,079	(30,822)
(2,250)	(69,000)	-
<b>71,102</b>	<b>33,079</b>	<b>(30,822)</b>
4,520,447	9,428,769	203,984
<b>\$ 4,591,549</b>	<b>\$ 9,461,848</b>	<b>\$ 173,162</b>

Continued...

**VILLAGE OF ELK RAPIDS, MICHIGAN**

**STATEMENT OF REVENUES, EXPENSES  
AND CHANGE IN NET ASSETS  
PROPRIETARY FUNDS**

**FOR THE YEAR ENDED FEBRUARY 29, 2008**

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**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET  
ASSETS OF ENTERPRISE FUNDS TO THE STATEMENT OF ACTIVITIES**

**CHANGE IN NET ASSETS - TOTAL ENTERPRISE FUNDS** **\$ 33,079**

Amounts reported for business-type activities in the statement of activities are different because:

Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. Certain revenues and expenses of the internal service fund are reported with business-type activities.

Subtract: net loss of certain activities of the internal service fund reported with business-type activities

(6,302)

**CHANGE IN NET ASSETS OF BUSINESS-TYPE ACTIVITIES**

**\$ 26,777**

Concluded

The accompanying notes are an integral part of these financial statements.

# VILLAGE OF ELK RAPIDS, MICHIGAN

## STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

FOR THE YEAR ENDED FEBRUARY 29, 2008

	Business-Type Activities		
	Water Fund	Sewer Fund	Waste Collection Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers	\$ 367,714	\$ 364,285	\$ 98,958
Cash received from interfund services provided	-	-	-
Cash payments to employees	(74,578)	(59,654)	(44,322)
Cash payments to suppliers for goods and services	(98,287)	(286,795)	(135,625)
Cash payments for interfund services	(20,200)	(9,335)	(6,500)
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>174,649</b>	<b>8,501</b>	<b>(87,489)</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>			
Taxes	-	-	121,359
Other revenue	4,235	6,527	3,158
State revenue	-	-	-
Transfers out to other funds	(2,250)	(62,250)	(2,250)
<b>NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES</b>	<b>1,985</b>	<b>(55,723)</b>	<b>122,267</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Purchase of capital assets	(234,876)	-	(11,425)
Proceeds from sale of capital assets	-	-	-
Repayments of advances (from) to other funds	-	-	(2,028)
Proceeds from issuance of long-term debt	-	-	-
Principal payments	-	-	-
Interest payments	(4,014)	(4,014)	(1,346)
<b>NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(238,890)</b>	<b>(4,014)</b>	<b>(14,799)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest revenue	13,922	18,810	2,809
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(48,334)</b>	<b>(32,426)</b>	<b>22,788</b>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	217,177	362,037	42,206
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 168,843</b>	<b>\$ 329,611</b>	<b>\$ 64,994</b>
<b>STATEMENT OF NET ASSETS CLASSIFICATION OF CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents	\$ 168,843	\$ 329,611	\$ 64,994
Restricted assets - cash and cash equivalents	-	-	-
	<b>\$ 168,843</b>	<b>\$ 329,611</b>	<b>\$ 64,994</b>

The accompanying notes are an integral part of these financial statements.

		Governmental Activities
Harbor Fund	Total	Internal Service Fund
\$ 926,880	\$ 1,757,837	\$ -
-	-	187,205
(141,937)	(320,491)	(53,567)
(473,214)	(993,921)	(107,547)
-	(36,035)	-
<b>311,729</b>	<b>407,390</b>	<b>26,091</b>
-	121,359	-
7,353	21,273	5
-	-	-
(2,250)	(69,000)	-
<b>5,103</b>	<b>73,632</b>	<b>5</b>
(219,210)	(465,511)	(99,903)
-	-	6,010
15,815	13,787	-
-	-	83,556
(55,000)	(55,000)	(27,074)
(42,434)	(51,808)	(817)
<b>(300,829)</b>	<b>(558,532)</b>	<b>(38,228)</b>
37,248	72,789	1,314
<b>53,251</b>	<b>(4,721)</b>	<b>(10,818)</b>
811,618	1,433,038	14,760
<b>\$ 864,869</b>	<b>\$ 1,428,317</b>	<b>\$ 3,942</b>
\$ 778,839	\$ 1,342,287	\$ 3,942
87,219	87,219	-
<b>\$ 866,058</b>	<b>\$ 1,429,506</b>	<b>\$ 3,942</b>

Continued...

# VILLAGE OF ELK RAPIDS, MICHIGAN

## STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

FOR THE YEAR ENDED FEBRUARY 29, 2008

	Business-Type Activities		
	Water Fund	Sewer Fund	Waste Collection Fund
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>			
Operating income (loss)	\$ 87,941	\$ (126,192)	\$ (96,009)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation and amortization	71,677	79,040	3,589
Changes in assets and liabilities			
Accounts receivable	2,662	(7,510)	-
Prepaid items	(286)	(204)	40
Inventory	3,513	769	-
Accounts payable	3,157	61,647	3,844
Accrued expenses	473	676	314
Unearned revenue	-	-	-
Accrued compensated absences	5,512	275	733
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>\$ 174,649</b>	<b>\$ 8,501</b>	<b>\$ (87,489)</b>

The accompanying notes are an integral part of these financial statements.

		Governmental Activities
Harbor Fund	Total	Internal Service Fund
\$ 70,777	\$ (63,483)	\$ (32,737)
189,833	344,139	51,401
-	(4,848)	-
(1,298)	(1,748)	(541)
(861)	3,421	-
35,771	104,419	7,135
486	1,949	288
15,444	15,444	-
1,577	8,097	545
<b>\$ 311,729</b>	<b>\$ 407,390</b>	<b>\$ 26,091</b>

Concluded

# **VILLAGE OF ELK RAPIDS, MICHIGAN**

## **STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES AGENCY FUNDS**

**FEBRUARY 29, 2008**

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	<b>Agency Funds</b>
	<hr/>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 13,968
Accounts receivable	2,577
	<hr/>
<b>TOTAL ASSETS</b>	<b><u><u>\$ 16,545</u></u></b>
<b>LIABILITIES</b>	
Deposits payable	<b><u><u>\$ 16,545</u></u></b>

The accompanying notes are an integral part of these financial statements.



# VILLAGE OF ELK RAPIDS, MICHIGAN

## Index

### Notes to the Financial Statements

February 29, 2008

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# VILLAGE OF ELK RAPIDS, MICHIGAN

## Notes to the Financial Statements

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### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting entity

The *Village of Elk Rapids* ("Village") is directed by a Village Council elected by the community at large. This legislative body appoints a Village Manager to administer the affairs of the Village. The Village provides the following services as authorized by its charter: public safety (police), public works, parks and recreation, community development and general administrative services. The Village has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, regarding the definition of the reporting entity.

#### Discretely Presented Component Unit

**Downtown Development Authority ("DDA")** – The members of the governing board of the Downtown Development Authority are appointed by the Village Council. The budgets and expenditures of the DDA must be approved by the Village Council. The Village Council also has the ability to significantly influence operations of the DDA. A complete financial statement of the DDA can be obtained from the Village Manager, Village of Elk Rapids, 315 Bridge Street, P.O. Box 398, Elk Rapids, Michigan 49629-0398.

#### B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from the legally separate *component unit* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

# VILLAGE OF ELK RAPIDS, MICHIGAN

## Notes to the Financial Statements

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The Village reports the following major governmental funds:

The *General Fund* is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Major Street Fund* accounts for the use of motor fuel taxes and trunkline maintenance funds, which are earmarked by State statute for major street and highway purposes.

The *Local Street Fund* accounts for the use of motor fuel taxes, which are earmarked by State statute for local street and highway purposes.

The *Municipal Street Fund* accounts for the use of property taxes, which are earmarked for municipal street purposes.

The Village reports the following major proprietary funds:

The *Water Fund* accounts for the activities of the Village's water distribution system.

The *Sewer Fund* accounts for the activities of the Village's sewage disposal and treatment system.

The *Waste Collection Fund* accounts for the Village's waste collection operations.

The *Harbor Fund* accounts for the activities of the Village's Harbor operations.

Additionally, the Village reports the following fund types:

The *Government Building Operating Special Revenue Fund* accounts for the activities involved in operating the Village's building that is shared with Elk Rapids Township.

The *Debt Service Funds* account for the accumulation of resources for, and the payment of, principal, interest, and related costs.

The *Capital Projects Funds* account for the acquisition or construction of capital assets.

The *Internal Service Fund* accounts for motor vehicle and equipment management to other departments of the Village on a cost reimbursement basis.

The *Agency Funds* account for assets held by the Village in a trustee or agency capacity for individuals, private organizations, other governments and/or other funds.

# VILLAGE OF ELK RAPIDS, MICHIGAN

## Notes to the Financial Statements

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### C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting; however, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Village.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function, cost of building rent and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

# VILLAGE OF ELK RAPIDS, MICHIGAN

## Notes to the Financial Statements

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Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water, Sewer, Waste Collection and Harbor Enterprise Funds and of the government's Motor Pool Internal Service Fund are charges to customers for sales and services. The enterprise funds also recognize as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

### **D. Assets, liabilities and equity**

#### **1. Deposits and investments**

The Village's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

#### **2. Restricted Assets**

Cash is restricted by bond debt requirements in the amount of \$87,219.

#### **3. Receivables and payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year and all other outstanding balances between funds are referred to as "due to/from other funds" (i.e., the current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

#### **4. Inventory and Prepaid Items**

Inventory held by the enterprise funds is valued at cost on the first-in, first-out basis. Inventory of expendable supplies in other funds have not been recorded and the amount of any such inventories is not considered material. The cost value of such inventories has been treated as an expenditure at the time of purchase.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

# VILLAGE OF ELK RAPIDS, MICHIGAN

## Notes to the Financial Statements

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### 5. *Capital assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (i.e., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Village as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government and component unit are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40-50
Public domain infrastructure	20
Systems and improvements	50-60
Land Improvements	15
Vehicles	5-12
Equipment	5-15

### 6. *Compensated absences*

Vacation days for Village employees are determined based on contracts with Village employees. The liability for these amounts is included in the government-wide and proprietary fund financial statements.

### 7. *Long-term obligations*

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

# VILLAGE OF ELK RAPIDS, MICHIGAN

## Notes to the Financial Statements

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In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

### **8. *Fund equity***

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

## **II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### **A. Budgetary information**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

Appropriations are approved by the Village Council at the activity level for the General Fund and at the functional level for the Special Revenue Funds.

No later than February 29<sup>th</sup> of the preceding fiscal year the Village Council shall, by resolution, adopt the budget for the next year.

The Village Manager is authorized to transfer budgeted amounts between accounts within the same activity in the General Fund. Revisions that alter the total expenditures of any fund or total department activity in the General Fund must be approved by the Village Council.

### **B. Deficit fund equity**

At February 29, 2008, the General Fund had a deficit unreserved fund balance of \$9,245. During the fiscal year ended February 29, 2004, expenditures were incurred by the fund for the construction of the Village Hall, which were paid with long-term advances from the enterprise funds. The deficit fund balance will be eliminated through future release of captured taxes.

At February 29, 2008, the Government Building Operating Special Revenue Fund had a deficit unreserved fund balance of \$7,346. The deficit fund balance will be eliminated through future charges for services.

# VILLAGE OF ELK RAPIDS, MICHIGAN

## Notes to the Financial Statements

### III. DETAILED NOTES ON ALL FUNDS

#### A. Deposits and investments

Cash and cash equivalents and restricted assets are reported in the financial statements as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Unit</u>
Cash and cash equivalents	\$ 495,647	\$ 1,342,287	\$ 1,837,934	\$ 13,968	\$ 546,769
Restricted assets	-	87,219	87,219	-	-
<b>Total</b>	<b><u>\$ 495,647</u></b>	<b><u>\$ 1,429,506</u></b>	<b><u>\$ 1,925,153</u></b>	<b><u>\$ 13,968</u></b>	<b><u>\$ 546,769</u></b>
Deposits (checking / savings accounts)			\$ 1,945,305		
Deposits (certificates of deposit)			540,000		
Cash on hand			<u>585</u>		
<b>Total</b>			<b><u>\$ 2,485,890</u></b>		

#### *Investment and Deposit Risk*

*Interest Rate Risk.* State law limits the allowable investments and the maturities of investments. The Village's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At February 29, 2008, the Village had one certificate of deposit outstanding, at \$540,000 which matures in April 2008.

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers' acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools. The Village's investment policy does not have specific limits in excess of state law pertaining to investment credit risk.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned. State law does not require and the Village's investment policy does not have specific limits in excess of state law pertaining to custodial credit risk. As of year-end, \$2,388,012 of the bank balance of \$2,488,012 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial Credit Risk – Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Village will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. State law does not require and the Village does not have a specific policy pertaining to investment custodial credit risk which is more restrictive than state law. As of February 29, 2008, the Village has no investment custodial credit risk as the Village has no investments.

*Concentrations of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk. The Village's investment policy does not have specific limits in excess of state law on concentration of credit risk.



# VILLAGE OF ELK RAPIDS, MICHIGAN

## Notes to the Financial Statements

### B. Receivables

Receivables in the Village's governmental activities consist of 95% taxes receivable and 5% other receivables. Receivables in the business-type activities consist of 88% due from customers and 12% taxes receivable.

### C. Capital assets

#### Primary Government

Capital assets recorded in the governmental activities of the primary government includes all sidewalk and streetscape improvements since March 1, 2004. All other infrastructure is not included in these financial statements.

Capital assets activity in the governmental and business-type activities was as follows for the year ended February 29, 2008:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 585,021	\$ -	\$ -	\$ 585,021
Construction in progress	-	41,069	-	41,069
Total capital assets not being depreciated	<u>585,021</u>	<u>41,069</u>	<u>-</u>	<u>626,090</u>
Capital assets being depreciated				
Land improvements	256,572	231,977	-	488,549
Infrastructure	276,834	502,466	-	779,300
Buildings and improvements	1,652,991	2,700	-	1,655,691
Vehicles	466,513	-	(18,387)	448,126
Furniture and equipment	<u>525,093</u>	<u>99,903</u>	<u>-</u>	<u>624,996</u>
Total capital assets being depreciated	<u>3,178,003</u>	<u>837,046</u>	<u>(18,387)</u>	<u>3,996,662</u>
Less accumulated depreciation for				
Land improvements	(145,599)	(22,196)	-	(167,795)
Infrastructure	(34,447)	(27,990)	-	(62,437)
Buildings and improvements	(553,490)	(39,208)	-	(592,698)
Vehicles	(383,344)	(24,664)	13,790	(394,218)
Furniture and equipment	<u>(337,868)</u>	<u>(38,565)</u>	<u>-</u>	<u>(376,433)</u>
Total accumulated depreciation	<u>(1,454,748)</u>	<u>(152,623)</u>	<u>13,790</u>	<u>(1,593,581)</u>
Total capital assets being depreciated, net	<u>1,723,255</u>	<u>684,423</u>	<u>(4,597)</u>	<u>2,403,081</u>
<b>Governmental activities capital assets, net</b>	<u><b>\$ 2,308,276</b></u>	<u><b>\$ 725,492</b></u>	<u><b>\$ (4,597)</b></u>	<u><b>\$ 3,029,171</b></u>

# VILLAGE OF ELK RAPIDS, MICHIGAN

## Notes to the Financial Statements

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-type activities</b>				
Capital assets not being depreciated				
Land	\$ 26,430	\$ -	\$ -	\$ 26,430
Capital assets being depreciated				
Buildings and improvements	570,243	-	-	570,243
Improvements to systems	12,400,543	457,101	-	12,857,644
Machinery and equipment	166,488	8,411	-	174,899
Total capital assets being depreciated	13,137,274	465,512	-	13,602,786
Less accumulated depreciation for				
Buildings and improvements	(56,345)	(14,702)	-	(71,047)
Improvements to systems	(4,132,073)	(313,390)	-	(4,445,463)
Machinery and equipment	(109,399)	(16,047)	-	(125,446)
Total accumulated depreciation	(4,297,817)	(344,139)	-	(4,641,956)
Total capital assets being depreciated, net	8,839,457	121,373	-	8,960,830
<b>Business-type activities capital assets, net</b>	<b><u>\$ 8,865,887</u></b>	<b><u>\$ 121,373</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 8,987,260</u></b>

Depreciation expense was charged to functions/programs of the primary government as follows:

### Governmental activities

General government	\$ 31,668
Public safety	10,802
Public works	35,539
Community development	8,316
Recreation and cultural	14,897
Capital assets held by the Village's internal service fund charged to the various functions based on their usage of the assets	51,401

**Total depreciation expense – governmental activities** **\$ 152,623**

### Business-type activities

Water	\$ 71,677
Sewer	79,040
Waste Collection	3,589
Harbor	189,833

**Total depreciation expense – business-type activities** **\$ 344,139**

# VILLAGE OF ELK RAPIDS, MICHIGAN

## Notes to the Financial Statements

### D. Interfund receivables, payables and transfers

The long term interfund receivables and payables are as follows as of February 29, 2008:

	<u>Advances from Harbor Fund</u>
<u>Advances to</u>	
General Fund	\$ 287,246
Enterprise Fund	
Waste collection	<u>42,241</u>
<b>Total</b>	<b><u>\$ 329,487</u></b>

These long term advances were entered into to finance the construction of the new Village hall during the year ended February 29, 2004. Each fund has scheduled payments until 2023 at an interest rate of 3.04%. The annual future payments including principal and interest to the Harbor Fund from the General Fund and the Waste Collection Enterprise Fund are \$22,937 and \$3,373, respectively.

The composition of interfund transfers is as follows:

	<u>Transfers In</u>				
<u>Transfers Out</u>	General Fund	Major Street Fund	Local Street Fund	Nonmajor Govt. Funds	Total
General Fund	\$ -	\$ -	\$ -	\$ 64,176	\$ 64,176
Major Street Fund	2,250	-	-	-	2,250
Local Street Fund	2,250	-	-	-	2,250
Municipal Street Fund	-	63,000	86,741	47,164	196,905
Nonmajor Gov. Funds	2,000	-	-	-	2,000
Sewer Fund	2,250	-	-	60,000	62,250
Water Fund	2,250	-	-	-	2,250
Waste Collection Fund	2,250	-	-	-	2,250
Harbor Fund	2,250	-	-	-	2,250
<b>Total</b>	<b><u>\$ 15,500</u></b>	<b><u>\$ 63,000</u></b>	<b><u>\$ 86,741</u></b>	<b><u>\$ 171,340</u></b>	<b><u>\$ 336,581</u></b>

Transfers are used to (1) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, (2) transfer amounts to debt service funds to make bond payments, (3) transfer amounts to the Major and Local Street Funds to finance the annual street overlay, (4) cover administrative costs incurred in the General Fund on behalf of other funds and (5) to transfer amounts to the capital projects fund to finance the construction of the Memorial Park bathroom.

# VILLAGE OF ELK RAPIDS, MICHIGAN

## Notes to the Financial Statements

### E. Long-term debt

**General obligation debt.** The Village issues general obligation bonds to provide funds for the acquisition and construction of major capital projects. These are direct obligations of the Village and the Village has pledged the full faith and credit. The Village obtains notes payable to provide funds for the acquisition of other capital assets, mostly vehicles and other related equipment.

The business-type activities have revenue bonds. These bonds' principal and interest are to be paid from the net revenues from the harbor operations.

The DDA component unit's bonds payable are also general obligations of the Village. The component unit's payables were issued by the component unit on behalf of the primary government. No debt agreements were issued by the component unit during the year ended February 29, 2008.

Following is a summary of bonds and notes payable of the Village including the DDA component unit for the year ending February 29, 2008:

<u>Purpose</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>Amount</u>
<b><u>Governmental activities</u></b>			
2000 General Obligation Water Bonds	2021	6.0%	\$ 430,000
2003 Capital Improvement Bonds - Bridge Street	2019	2.25-4.45%	415,000
Note payable - land purchase	2009	2.5%	194,990
Note payable – International snow plow	2011	4.1%	<u>83,556</u>
			<b><u>\$ 1,123,546</u></b>
<b><u>Business-type activities</u></b>			
2000 Marina Revenue Bonds	2019	4.75-5.25%	<b><u>\$ 795,000</u></b>
<b><u>Downtown Development Authority Component Unit</u></b>			
1996 Michigan Transportation Fund Bonds	2011	4.15-5.16%	\$ 145,000
1994 DDA, Series A Bonds	2008	5.0-8.0%	115,000
1994 DDA, Series B Bonds	2008	7.1-8.0%	<u>45,000</u>
			<b><u>\$ 305,000</u></b>

# VILLAGE OF ELK RAPIDS, MICHIGAN

## Notes to the Financial Statements

The annual requirements to pay principal and interest on long-term debt obligations are as follows:

Fiscal Year	Governmental Activities General Obligation Bonds		Governmental Activities Notes Payable		Business-Type Activities Revenue Bonds		DDA Component Unit General Obligation Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 55,000	\$ 40,436	\$ 221,546	\$ 8,554	\$ 55,000	\$ 38,498	\$ 195,000	\$15,928
2010	55,000	38,024	28,000	1,134	60,000	35,880	35,000	5,110
2011	60,000	35,504	29,000	1,148	65,000	32,973	35,000	3,203
2012	60,000	32,842	-	-	65,000	29,869	40,000	1,120
2013	65,000	29,973	-	-	70,000	26,560	-	-
2014-18	375,000	93,681	-	-	390,000	76,072	-	-
2019-21	175,000	13,090	-	-	90,000	2,363	-	-
	<u>\$ 845,000</u>	<u>\$283,550</u>	<u>\$ 278,546</u>	<u>\$ 10,836</u>	<u>\$ 795,000</u>	<u>\$ 242,215</u>	<u>\$ 305,000</u>	<u>\$ 25,361</u>

*Changes in long-term liabilities.* Long-term liability activity was as follows:

	March 1, 2007	Additions	Reductions	February 29, 2008	Due Within One Year
<b>Primary Government</b>					
<b>Governmental activities</b>					
General obligation bonds	\$ 895,000	\$ -	\$ (50,000)	\$ 845,000	\$ 55,000
Notes payable	251,801	83,556	(56,811)	278,546	221,546
Compensated absences	43,399	2,154	-	45,553	-
	<u>\$1,190,200</u>	<u>\$ 85,710</u>	<u>\$(106,811)</u>	<u>\$ 1,169,099</u>	<u>\$ 276,546</u>
<b>Business-type activities</b>					
Revenue bonds	\$ 850,000	\$ -	\$ (55,000)	\$ 795,000	\$ 55,000
Compensated absences	19,896	8,097	-	27,993	-
	<u>\$ 869,896</u>	<u>\$ 8,097</u>	<u>\$ (55,000)</u>	<u>\$ 822,993</u>	<u>\$ 55,000</u>
<b>Downtown Development Authority Component Unit</b>					
General obligation bonds	<u>\$ 490,000</u>	<u>\$ -</u>	<u>\$(185,000)</u>	<u>\$ 305,000</u>	<u>\$ 195,000</u>

For the governmental activities, compensated absences are generally liquidated by the general fund.

# VILLAGE OF ELK RAPIDS, MICHIGAN

## Notes to the Financial Statements

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### **IV. OTHER INFORMATION**

#### **A. Risk management**

The Village is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended February 29, 2008, the Village carried commercial insurance to cover all risk of losses. The worker's compensation insurance is the only retrospectively rated policy; any premiums accrued are based on the ultimate cost of the experience to date of the Village. The Village has had no settled claims resulting from these risks that exceeded their commercial coverage in the past three fiscal years.

#### **B. Property taxes**

Village property taxes are attached as an enforceable lien on property as of July 1. Taxes are levied July 1 and are due without penalty on or before September 14. The Village levies taxes for general operating purposes, waste collection services and municipal streets.

Real property taxes not collected as of September 14 are assessed a penalty and turned over to Antrim County on February 29 for collection. The County remits the collections to the Village until the delinquent tax settlement date. Collection of delinquent personal property taxes remains the responsibility of the Village Treasurer.

Property taxes for the DDA are derived from a tax increment financing agreement between the DDA and other related taxing districts. Under this arrangement, the DDA receives those property taxes levied on the increment of current taxable valuations (determined as of the preceding July 1, the lien date) over base year assessed valuations on certain property located in the Village, which are within the DDA district. Property taxes are recognized in the fiscal year in which they are levied.

#### **C. Defined Contribution Plan**

The Village sponsors the "Village of Elk Rapids Employee Pension Plan and Trust" defined contribution plan created in accordance with Internal Revenue Code Section 401(a). The plan is available to all full-time employees who have completed one year of service. Participants vest 20% each year for the first five years of service and are 100% vested thereafter. Participants are required to contribute 10% of their base pay and the Village is required to contribute an amount equal to 10% of the participant's base pay.

The plan is administered by third-party trustees. Plan provisions and contribution requirements were established and can only be amended by authorization of the Village Council. For the year ended February 29, 2008, the Village and eligible employees each contributed \$68,004.

#### **D. Contingencies**

Under the terms of State grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. However, Village management does not believe such disallowances, if any, will be material to the financial position of the Village.

# VILLAGE OF ELK RAPIDS, MICHIGAN

## Notes to the Financial Statements

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### **E. Commitment**

At February 29, 2008, the Village has entered into a contract with CJ's Excavating, Inc. to make improvements to the Lake and Loomis Area. The total amount of the contract entered into is \$542,153. Expenses incurred under this contract amounted to \$41,069 at February 29, 2008.

\* \* \* \* \*

**VILLAGE OF ELK RAPIDS, MICHIGAN**

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS**

**FEBRUARY 29, 2008**

	<b>Government Building Operating Special Revenue Fund</b>	<b>Debt Service Funds</b>	<b>Capital Projects Funds</b>	<b>Total Nonmajor Governmental Funds</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ -	\$ 40,817	\$ 51,255	\$ 92,072
Accounts receivable	-	-	4,130	4,130
Taxes receivable	-	2,937	-	2,937
<b>TOTAL ASSETS</b>	<b>\$ -</b>	<b>\$ 43,754</b>	<b>\$ 55,385</b>	<b>\$ 99,139</b>
<b>LIABILITIES</b>				
Accounts payable	\$ 7,346	-	-	\$ 7,346
<b>FUND BALANCES</b>				
Unreserved (deficit)	(7,346)	43,754	55,385	91,793
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ -</b>	<b>\$ 43,754</b>	<b>\$ 55,385</b>	<b>\$ 99,139</b>



# VILLAGE OF ELK RAPIDS, MICHIGAN

## COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED FEBRUARY 29, 2008

	Government Building Operating Special Revenue Fund	Debt Service Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
<b>REVENUES</b>				
Taxes	\$ -	\$ 45,947	\$ -	\$ 45,947
Charges for services	19,125	-	-	19,125
Interest revenue	(1)	1,149	3,879	5,027
Local contributions	-	-	61,227	61,227
Other revenue	-	-	44,186	44,186
<b>TOTAL REVENUES</b>	<b>19,124</b>	<b>47,096</b>	<b>109,292</b>	<b>175,512</b>
<b>EXPENDITURES</b>				
Current operations				
General government	43,632	-	-	43,632
Debt service				
Principal	-	50,000	-	50,000
Interest expense	-	43,193	-	43,193
Capital outlay	-	-	222,341	222,341
<b>TOTAL EXPENDITURES</b>	<b>43,632</b>	<b>93,193</b>	<b>222,341</b>	<b>359,166</b>
<b>REVENUES UNDER EXPENDITURES</b>	<b>(24,508)</b>	<b>(46,097)</b>	<b>(113,049)</b>	<b>(183,654)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	19,022	47,164	105,154	171,340
Transfers out	(2,000)	-	-	(2,000)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>17,022</b>	<b>47,164</b>	<b>105,154</b>	<b>169,340</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(7,486)</b>	<b>1,067</b>	<b>(7,895)</b>	<b>(14,314)</b>
FUND BALANCES, BEGINNING OF YEAR	140	42,687	63,280	106,107
<b>FUND BALANCES, END OF YEAR</b>	<b>\$ (7,346)</b>	<b>\$ 43,754</b>	<b>\$ 55,385</b>	<b>\$ 91,793</b>

# VILLAGE OF ELK RAPIDS, MICHIGAN

## COMBINING BALANCE SHEET NONMAJOR DEBT SERVICE FUNDS

FEBRUARY 29, 2008

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	<u>Bridge Street</u>	<u>River Crossing</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,525	\$ 39,292	\$ 40,817
Taxes receivable	-	2,937	2,937
<b>TOTAL ASSETS</b>	<u><u>\$ 1,525</u></u>	<u><u>\$ 42,229</u></u>	<u><u>\$ 43,754</u></u>
<b>FUND BALANCES</b>			
Unreserved	<u><u>\$ 1,525</u></u>	<u><u>\$ 42,229</u></u>	<u><u>\$ 43,754</u></u>

# VILLAGE OF ELK RAPIDS, MICHIGAN

## COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR DEBT SERVICE FUNDS

FOR THE YEAR ENDED FEBRUARY 29, 2008

	Bridge Street	River Crossing	Total
<b>REVENUES</b>			
Taxes	\$ -	\$ 45,947	\$ 45,947
Interest revenue	-	1,149	1,149
<b>TOTAL REVENUES</b>	<b>-</b>	<b>47,096</b>	<b>47,096</b>
<b>EXPENDITURES</b>			
Debt service			
Principal	30,000	20,000	50,000
Interest expense	16,913	26,280	43,193
<b>TOTAL EXPENDITURES</b>	<b>46,913</b>	<b>46,280</b>	<b>93,193</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(46,913)</b>	<b>816</b>	<b>(46,097)</b>
<b>OTHER FINANCING SOURCES</b>			
Transfers in	47,164	-	47,164
<b>NET CHANGE IN FUND BALANCES</b>	<b>251</b>	<b>816</b>	<b>1,067</b>
FUND BALANCES, BEGINNING OF YEAR	1,274	41,413	42,687
<b>FUND BALANCES, END OF YEAR</b>	<b>\$ 1,525</b>	<b>\$ 42,229</b>	<b>\$ 43,754</b>

# VILLAGE OF ELK RAPIDS, MICHIGAN

## COMBINING BALANCE SHEET NONMAJOR CAPITAL PROJECT FUNDS

FEBRUARY 29, 2008

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	<u>General Capital Projects</u>	<u>Southwest Village Project</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 51,204	\$ 51	\$ 51,255
Accounts receivable	<u>4,130</u>	<u>-</u>	<u>4,130</u>
<b>TOTAL ASSETS</b>	<u><b>\$ 55,334</b></u>	<u><b>\$ 51</b></u>	<u><b>\$ 55,385</b></u>
<b>FUND BALANCES</b>			
Unreserved	<u><b>\$ 55,334</b></u>	<u><b>\$ 51</b></u>	<u><b>\$ 55,385</b></u>

# VILLAGE OF ELK RAPIDS, MICHIGAN

## COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR CAPITAL PROJECT FUNDS

FOR THE YEAR ENDED FEBRUARY 29, 2008

	<b>General Capital Projects</b>	<b>Southwest Village Project</b>	<b>Total</b>
<b>REVENUES</b>			
Interest revenue	\$ 3,878	\$ 1	\$ 3,879
Local contributions	61,227	-	61,227
Other revenue	44,186	-	44,186
<b>TOTAL REVENUES</b>	<b>109,291</b>	<b>1</b>	<b>109,292</b>
<b>EXPENDITURES</b>			
Capital outlay	222,341	-	222,341
<b>REVENUES (UNDER) OVER EXPENDITURES</b>	<b>(113,050)</b>	<b>1</b>	<b>(113,049)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	105,154	-	105,154
<b>NET CHANGE IN FUND BALANCES</b>	<b>(7,896)</b>	<b>1</b>	<b>(7,895)</b>
FUND BALANCES, BEGINNING OF YEAR	63,230	50	63,280
<b>FUND BALANCES, END OF YEAR</b>	<b>\$ 55,334</b>	<b>\$ 51</b>	<b>\$ 55,385</b>

**VILLAGE OF ELK RAPIDS, MICHIGAN**

**COMBINING BALANCE SHEET  
AGENCY FUNDS**

**FEBRUARY 29, 2008**

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<b>ASSETS</b>	<b>Payroll</b>	<b>Health Insurance</b>	<b>Birch Lake Sewer</b>	<b>Employee Trust</b>	<b>Totals</b>
Cash and cash equivalents	\$ 2,625	\$ -	\$ 11,343	\$ -	\$ 13,968
Accounts receivable	-	-	2,577	-	2,577
<b>TOTAL ASSETS</b>	<b>\$ 2,625</b>	<b>\$ -</b>	<b>\$ 13,920</b>	<b>\$ -</b>	<b>\$ 16,545</b>
<b>LIABILITIES</b>					
Deposits payable	<b>\$ 2,625</b>	<b>\$ -</b>	<b>\$ 13,920</b>	<b>\$ -</b>	<b>\$ 16,545</b>

# VILLAGE OF ELK RAPIDS, MICHIGAN

## COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES AGENCY FUNDS

FOR THE YEAR ENDED FEBRUARY 29, 2008

	Balance March 1, 2007	Additions	Deductions	Balance February 28, 2008
<b><u>PAYROLL</u></b>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ 2,840	\$ 1,692,347	\$ 1,692,562	\$ 2,625
<b>LIABILITIES</b>				
Deposits payable	\$ 2,840	\$ 1,692,347	\$ 1,692,562	\$ 2,625
<b><u>HEALTH INSURANCE</u></b>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,160	\$ -	\$ 1,160	\$ -
<b>LIABILITIES</b>				
Accounts payable	\$ 1,160	\$ -	\$ 1,160	\$ -
<b><u>BIRCH LAKE SEWER</u></b>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ 2,684	\$ 57,441	\$ 48,782	\$ 11,343
Accounts receivable	4,103	44,549	46,075	2,577
<b>TOTAL ASSETS</b>	<b>\$ 6,787</b>	<b>\$ 101,990</b>	<b>\$ 94,857</b>	<b>\$ 13,920</b>
<b>LIABILITIES</b>				
Deposits payable	\$ 6,787	\$ 101,990	\$ 94,857	\$ 13,920

# VILLAGE OF ELK RAPIDS, MICHIGAN

## COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES AGENCY FUNDS

FOR THE YEAR ENDED FEBRUARY 29, 2008

	Balance March 1, 2007	Additions	Deductions	Balance February 28, 2008
<b><u>EMPLOYEE TRUST</u></b>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ 81	\$ -	\$ 81	\$ -
<b>LIABILITIES</b>				
Deposits payable	\$ 81	\$ -	\$ 81	\$ -
<b><u>TOTAL - ALL AGENCY FUNDS</u></b>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ 6,765	\$ 1,749,788	\$ 1,742,585	\$ 13,968
Accounts receivable	4,103	44,549	46,075	2,577
<b>TOTAL ASSETS</b>	<b>\$ 10,868</b>	<b>\$ 1,794,337</b>	<b>\$ 1,788,660</b>	<b>\$ 16,545</b>
<b>LIABILITIES</b>				
Accounts payable	\$ 1,160	\$ -	\$ 1,160	\$ -
Deposits payable	9,708	1,794,337	1,787,500	16,545
<b>TOTAL LIABILITIES</b>	<b>\$ 10,868</b>	<b>\$ 1,794,337</b>	<b>\$ 1,788,660</b>	<b>\$ 16,545</b>



# VILLAGE OF ELK RAPIDS, MICHIGAN

## GOVERNMENTAL FUND BALANCE SHEET AND STATEMENT OF NET ASSETS DOWNTOWN DEVELOPMENT AUTHORITY COMPONENT UNIT

FEBRUARY 29, 2008

	Westside DDA District	Eastside DDA District	MDOT Ames St. Debt Service	Total	Adjustments	Statement of Net Assets
<b>ASSETS</b>						
Cash and cash equivalents	\$ 313,002	\$ 233,108	\$ 659	\$ 546,769	\$ -	\$ 546,769
Prepaid items	79	-	-	79	-	79
<b>TOTAL ASSETS</b>	<b>\$ 313,081</b>	<b>\$ 233,108</b>	<b>\$ 659</b>	<b>\$ 546,848</b>	<b>\$ -</b>	<b>\$ 546,848</b>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>LIABILITIES</b>						
Accounts payable	\$ 584	\$ 14,685	\$ -	\$ 15,269	\$ -	\$ 15,269
Accrued expenses	534	-	-	534	-	534
Accrued interest payable	-	-	-	-	6,055	6,055
Long-term liabilities						
Due within one year	-	-	-	-	195,000	195,000
Due in more than one year	-	-	-	-	110,000	110,000
<b>TOTAL LIABILITIES</b>	<b>1,118</b>	<b>14,685</b>	<b>-</b>	<b>15,803</b>	<b>311,055</b>	<b>326,858</b>
<b>FUND BALANCES / NET ASSETS</b>						
Reserved for prepaid items	79	-	-	79	(79)	-
Unreserved and undesignated	311,884	218,423	659	530,966	(530,966)	-
<b>TOTAL FUND BALANCES</b>	<b>311,963</b>	<b>218,423</b>	<b>659</b>	<b>531,045</b>	<b>(531,045)</b>	<b>-</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 313,081</b>	<b>\$ 233,108</b>	<b>\$ 659</b>	<b>\$ 546,848</b>		
<b>NETS ASSETS</b>						
Unrestricted					<b>\$ 219,990</b>	<b>\$ 219,990</b>

Continued...

**BALANCE SHEET**  
**DOWNTOWN DEVELOPMENT AUTHORITY COMPONENT UNIT**

**RECONCILIATION OF FUND BALANCES ON THE GOVERNMENTAL FUND BALANCE SHEET FOR THE DOWNTOWN DEVELOPMENT AUTHORITY TO THE STATEMENT OF NET ASSETS**

Concluded

# VILLAGE OF ELK RAPIDS, MICHIGAN

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES AND STATEMENT OF ACTIVITIES DOWNTOWN DEVELOPMENT AUTHORITY COMPONENT UNIT

**FOR THE YEAR ENDED FEBRUARY 29, 2008**

	<b>Westside DDA District</b>	<b>Eastside DDA District</b>	<b>MDOT Ames St. Debt Service</b>	<b>Total</b>	<b>Adjustments</b>	<b>Statement of Activities</b>
<b>EXPENDITURES / EXPENSES</b>						
Public works	\$ 639,441	\$ 95,753	\$ -	\$ 735,194	\$ -	\$ 735,194
Debt service						
Principal	155,000	-	30,000	185,000	(185,000)	-
Interest expense	18,320	-	8,990	27,310	(4,173)	23,137
<b>TOTAL EXPENDITURES / EXPENSES</b>	<b>812,761</b>	<b>95,753</b>	<b>38,990</b>	<b>947,504</b>	<b>(189,173)</b>	<b>758,331</b>
<b>GENERAL REVENUES</b>						
Taxes	540,903	118,743	-	659,646	-	659,646
Grants and contributions not restricted to specific programs	5,653	-	21,094	26,747	-	26,747
Other revenue	4,789	-	-	4,789	-	4,789
Interest revenue	19,906	10,314	-	30,220	-	30,220
<b>TOTAL GENERAL REVENUES</b>	<b>571,251</b>	<b>129,057</b>	<b>21,094</b>	<b>721,402</b>	<b>-</b>	<b>721,402</b>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	-	-	17,896	17,896	-	17,896
Transfers out	-	(17,896)	-	(17,896)	-	(17,896)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>(17,896)</b>	<b>17,896</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>CHANGE IN FUND BALANCES / NET ASSETS</b>	<b>(241,510)</b>	<b>15,408</b>	<b>-</b>	<b>(226,102)</b>	<b>189,173</b>	<b>(36,929)</b>
FUND BALANCE / NET ASSETS, BEGINNING OF YEAR	553,473	203,015	659	757,147	(500,228)	256,919
<b>FUND BALANCE / NET ASSETS, END OF YEAR</b>	<b>\$ 311,963</b>	<b>\$ 218,423</b>	<b>\$ 659</b>	<b>\$ 531,045</b>	<b>\$ (311,055)</b>	<b>\$ 219,990</b>

Continued...

**VILLAGE OF ELK RAPIDS, MICHIGAN**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
DOWNTOWN DEVELOPMENT AUTHORITY COMPONENT UNIT**

**FOR THE YEAR ENDED FEBRUARY 29, 2008**

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**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES OF THE DOWNTOWN DEVELOPMENT  
AUTHORITY COMPONENT UNIT TO THE STATEMENT OF ACTIVITIES**

NET CHANGE IN FUND BALANCES - TOTAL DOWNTOWN DEVELOPMENT  
AUTHORITY COMPONENT UNIT \$ (226,102)

Amounts reported for the Downtown Development Authority Component Unit in the statement  
of activities are different because:

Bond proceeds provide current financial resources to governmental funds in the period issued,  
but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of  
bond principal is an expenditure in the governmental funds, but the repayment reduces long-term  
liabilities in the statement of net assets.

Add: principal payments on long-term liabilities 185,000

Some expenses reported in the statement of activities do not require the use of current financial  
resources and therefore are not reported as expenditures in governmental funds

Add: decrease in accrued interest on long-term liabilities 4,173

**CHANGE IN NET ASSETS OF DOWNTOWN DEVELOPMENT  
AUTHORITY COMPONENT UNIT \$ (36,929)**

Concluded



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

July 18, 2008

Village Council  
Village of Elk Rapids  
Elk Rapids, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely-presented component unit, each major fund, and the aggregate remaining fund information of the ***Village of Elk Rapids, Michigan*** (the "Village"), as of and for the year ended February 29, 2008, which collectively comprise the Village's basic financial statements and have issued our report thereon dated July 18, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Village's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies shown in the accompanying schedule to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiencies described in the accompanying schedule are not material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Village's responses to the findings identified in our audit are described in the accompanying schedule. We did not audit the Village's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management and Village Council, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

## **SCHEDULE OF FINANCIAL STATEMENT FINDINGS**

### **Finding 2008-1 – General Accounting Issues and Preparation of Financial Statements in Accordance with Accounting Principles Generally Accepted in the United States of America.**

**Criteria:** All Michigan governments are required to prepare financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). This is a responsibility of the Village's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)

**Condition:** In order to present the Village's books in compliance with generally accepted accounting principles (GAAP), we were required to make a large number of adjustments to reasonably adjust the Village's internal books. In addition, as is the case with many smaller and medium-sized entities, the Village has historically relied on its independent external auditors to assist in the preparation of financial statements and footnotes as part of its external financial reporting process. Accordingly, the Village's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the Village's *internal* controls.

**Cause:** This condition was caused by the Village's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the Village to perform this task internally.

**Effect:** As a result of this condition, the Village lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task. This condition adds both to the duration and complexity of the audit, as well as reduces the accuracy and usefulness of the Village's interim financial data.

**View of Responsible Officials:** The Village has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the Village to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

### **Finding 2008-2 – Inadequate segregation of duties within a significant account or process.**

**Criteria:** All significant accounts or processes for local governments are required to have adequate segregation of duties over the account or process.

**Condition:** As is the case with many smaller and medium-sized entities, the Village's number of staff results in limited segregation of duties over billing and collection of utility receipts.

**Cause:** This condition was caused by the Village's decision that it is more cost effective to have inadequate segregation of duties than to incur the expense of additional staff required to segregate these duties.

**Effect:** As a result of this condition, the Village lacks adequate segregation of duties over the billing and collection of utility receipts.

### **SCHEDULE OF FINANCIAL STATEMENT FINDINGS (Continued)**

**View of Responsible Officials:** The Village has evaluated the cost vs. benefit of establishing adequate segregation of duties over the billing and collection of utility receipts, and determined that it is in the best interests of the Village to continue to implement procedures where possible to improve the segregation of duties within the limitations of the current staffing levels.





**REHMANN ROBSON**

*Certified Public Accountants*

A member of **THE REHMANN GROUP**

An Independent Member of Baker Tilly International

July 21, 2008

Village Council  
Village of Elk Rapids  
Elk Rapids, Michigan

We have audited the financial statements of the ***Village of Elk Rapids*** for the year ended February 29, 2008, and have issued our report thereon dated July 21, 2008. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards**

As stated in our engagement letter dated May 19, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the ***Village of Elk Rapids***. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the ***Village of Elk Rapids***' compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

**Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters in May 2008.

## **Significant Audit Findings**

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the ***Village of Elk Rapids*** are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on standard useful lives for villages.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of vacation banks.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statements may be affected by unusual transactions, including nonrecurring transactions. We noted none of these types of unusual or nonrecurring transactions.

### *Difficulties Encountered in Performing the Audit*

We encountered no difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were

material, either individually or in the aggregate, to the financial statements taken as a whole.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated July 14, 2008.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Village Council and management of the ***Village of Elk Rapids*** and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive, flowing style with a large initial 'L'.

# **VILLAGE OF ELK RAPIDS**

## **Comments and Recommendations**

**For the Year Ended February 29, 2008**

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In planning and performing our audit of the financial statements of the *Village of Elk Rapids* as of and for the year ended February 29, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Village's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. The deficiencies we noted that we consider to be significant deficiencies are described in our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

# VILLAGE OF ELK RAPIDS

## Comments and Recommendations

For the Year Ended February 29, 2008

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### Other Matter

#### Bank Reconciliation Process

**Criteria:** The Michigan Department of Treasury has recently issued guidance re-emphasizing its position as stated in the *Uniform Accounting Procedures Manual* that local units of government are required to prepare bank reconciliations for all cash accounts monthly. Auditors are now required to report to the Local Audit and Finance Division whether all bank reconciliations examined in connection with our audit were performed timely (i.e., within six weeks of each month end). In addition, to ensure good internal controls, bank reconciliations should be reviewed by a responsible official and both the preparer and the reviewer should initial and date the reconciliation as evidence.

**Condition:** We noted during our auditing procedures related to cash, that bank reconciliations are not being reviewed by a responsible official other than the preparer.

**Cause:** The cause of this condition is that the Village has a small staff which makes independent review of bank reconciliations difficult.

**Effect:** As a result of this condition, the Village does not have independent reconciliation of its bank statements.

**Recommendation:** We recommend that to strengthen internal controls in this area, bank reconciliations should be reviewed by a responsible official with a working knowledge of the Village's bank accounts. To document the preparation and subsequent review, bank reconciliations should be initialed and dated by both the preparer and reviewer.

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